Ratlou Local Municipality

Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Ratlou Local municipality's mandate is to engage in local governance activities, which includes: - planning and promotion of integrated development planning - land, economic and environmental development - supplying of the rental facilities and administration of rates - encourage and facilitate community and community organisations involvement in local governance matters
Legislation governing the Municipality's operations	Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Structures Act (Act 117 of 1998) Constitution of the Republic of south Africa (Act 108 of 1998) Municipal Property Rates Act (act of 6 2004) Division of Revenue Act (Act 1 of 2007)
Mayoral committee	
Executive committe members	Phaedi ME (Acting Mayor)
	Seabelo O (Speaker)
	Godi L (member)
	Seitshiro D (member)
	Badirwang K (member)
	Ntwe T (chairperson sec 79 MSA)
Councillors	Dala M
	Boikanyo M
	Dithobiso D
	Gadiutlwe G
	Leepo K
	Mabaso K
	Matebele A
	Mikelane K
	Moalusi F
	Mokgope G
	Mokone K
	Mongala M
	Mosikare S
	Mothibedi E
	Chipane S
	Pebe K
	Ramosidi A
	Seane E
	Sefawe O
	Mafethe P
	Molema O
	Newson G
Grading of local authority	Grade 1
Capacity of local authority	Low

General Information

Municipal demarcation code	NW381
Chief Finance Officer (CFO)	Ledingoane M (acting)
Accounting Officer	Chanda T
Registered office	Delareyville Road Next to Setlagole Library Setlagole 2772
Postal address	Private Bag X209 Madibogo 2772
Bankers	First National Bank
Auditors	Auditor General of South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Financial Management Grant
EPWP	Expanded Public Works Program
LG SETA	Local Government Sector Education and Training Authority

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on:

Chanda T
Municipal Manager

Report of the Accounting Officer

The accounting officer submits their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 2 800 585 (30 June 2019: surplus R 7 992 822).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Chanda T	South African

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	7	406 265	436 320
Operating lease asset		6 227	3 594
Receivables from exchange transactions	4&6	7 353 450	4 272 165
Receivables from non-exchange transactions	5&6	15 744 456	14 564 185
VAT receivable	8	8 714 489	9 447 646
Cash and cash equivalents	3	53 552 636	15 251 031
		85 777 523	**43 974 941**
Non-Current Assets			
Investment property	9	21 600 000	21 400 000
Property, plant and equipment	10	341 661 727	362 813 430
Intangible assets	11	453 382	580 469
		363 715 109	**384 793 899**
Total Assets		**449 492 632**	**428 768 840**
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	12 294 328	32 948 815
Consumer deposits	13	24 301	24 301
Unspent conditional grants and receipts	14	27 242 427	3 855 005
Provisions	15	51 000	137 219
		39 612 056	**36 965 340**
Non-Current Liabilities			
Provisions	15	5 195 399	3 375 021
Total Liabilities		**44 807 455**	**40 340 361**
Net Assets		**404 685 177**	**388 428 479**
Accumulated surplus		404 685 177	388 428 479

* See Note 45 & 44

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	311 856	377 573
Rental of facilities and equipment	18	1 199 552	1 371 656
Interest received (trading)		2 388 820	2 533 179
Agency services		338 629	42 235
Insurance claims received		-	1 060 700
Other income		141 719	395 548
Interest received (investment)	20	2 480 794	3 130 862
Actuarial gains		-	113 341
Total revenue from exchange transactions		**6 861 370**	**9 025 094**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	28 633 768	17 237 120
Transfer revenue			
Government grants & subsidies	22	133 923 023	133 956 166
Public contributions and donations		20 141	1 508 745
Fines, penalties and forfeits		141 500	257 300
Total revenue from non-exchange transactions		**162 718 432**	**152 959 331**
Total revenue		**169 579 802**	**161 984 425**
Expenditure			
Employee related costs	23	(77 114 136)	(73 815 498)
Remuneration of councillors	24	(12 645 038)	(11 339 526)
Depreciation and amortisation	25	(28 546 252)	(2 262 719)
Finance costs	26	(32 725)	(319 457)
Debt impairment	27	(4 156 836)	(4 185 518)
Contracted services	28	(6 412 479)	(6 112 561)
Loss on disposal of assets and liabilities		(254 802)	-
General expenses	29	(43 218 119)	(55 956 324)
Total expenditure		**(172 380 387)**	**(153 991 603)**
(Deficit) surplus for the year		**(2 800 585)**	**7 992 822**

* See Note 45 & 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**380 435 657**	**380 435 657**
Changes in net assets		
Surplus for the year	7 992 822	7 992 822
Total changes	7 992 822	7 992 822
Opening balance as previously reported	388 428 479	388 428 479
Adjustments		
Prior year adjustments	19 057 286	19 057 286
Restated* Balance at 01 July 2019 as restated*	**407 485 762**	**407 485 762**
Changes in net assets		
Surplus for the year	(2 800 585)	(2 800 585)
Total changes	(2 800 585)	(2 800 585)
Balance at 30 June 2020	**404 685 177**	**404 685 177**

* See Note 45 & 44

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates		28 633 768	17 237 120
Rental, service and interest		2 032 448	3 423 675
Grants		156 291 815	132 578 214
Interest income		2 480 794	3 130 862
		189 438 825	156 369 871
Payments			
Employee costs		(89 759 174)	(85 155 024)
Suppliers		(68 523 505)	(57 421 714)
Finance costs		(32 725)	(319 457)
Other cash item		9 776 644	(992 558)
		(148 538 760)	(143 888 753)
Net cash flows from operating activities	31	**40 900 065**	**12 481 118**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(2 598 460)	(5 380 157)
Purchase of other intangible assets	11	-	(148 500)
Proceeds from sale of other intangible assets	11	-	154 906
Net cash flows from investing activities		**(2 598 460)**	**(5 373 751)**
Cash flows from financing activities			
Movements in operating lease assets and accruals		2 633	2 633
Net increase/(decrease) in cash and cash equivalents		**38 301 605**	**7 107 367**
Cash and cash equivalents at the beginning of the year		15 251 031	8 143 664
Cash and cash equivalents at the end of the year	3	**53 552 636**	**15 251 031**

* See Note 45 & 44

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	-	-	**-**	311 856	**311 856**	42
Rental of facilities and equipment	1 935 000	(350 000)	**1 585 000**	1 199 552	**(385 448)**	42
Interest received (trading)	-	-	**-**	2 388 820	**2 388 820**	42
Agency services	-	-	**-**	338 629	**338 629**	42
Other income	1 507 000	(736 000)	**771 000**	141 719	**(629 281)**	42
Interest received - investment	3 500 000	(1 500 000)	**2 000 000**	2 480 794	**480 794**	42
Total revenue from exchange transactions	**6 942 000**	**(2 586 000)**	**4 356 000**	**6 861 370**	**2 505 370**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18 524 000	9 936 000	**28 460 000**	28 633 768	**173 768**	42
Transfer revenue						
Government grants and subsidies	131 536 000	887 000	**132 423 000**	133 923 023	**1 500 023**	42
Public contributions and donations	-	-	**-**	20 141	**20 141**	42
Fines	240 000	-	**240 000**	141 500	**(98 500)**	42
Conditional grants revenue	27 930 000	-	**27 930 000**	-	**(27 930 000)**	42
Total revenue from non-exchange transactions	**178 230 000**	**10 823 000**	**189 053 000**	**162 718 432**	**(26 334 568)**	
Total revenue	**185 172 000**	**8 237 000**	**193 409 000**	**169 579 802**	**(23 829 198)**	
Expenditure						
Personnel	(78 887 000)	(3 293 000)	**(82 180 000)**	(77 114 136)	**5 065 864**	42
Remuneration of councillors	(12 568 000)	-	**(12 568 000)**	(12 645 038)	**(77 038)**	42
Depreciation and amortisation	(12 500 000)	-	**(12 500 000)**	(28 546 252)	**(16 046 252)**	42
Finance costs	(60 000)	(185 000)	**(245 000)**	(32 725)	**212 275**	42
Debt Impairment	(4 200 000)	-	**(4 200 000)**	(4 156 836)	**43 164**	42
Repairs and maintenance	-	-	**-**	(3 451 227)	**(3 451 227)**	42
Contracted services	(9 960 000)	(1 775 000)	**(11 735 000)**	(6 412 479)	**5 322 521**	42
Transfers and Subsidies	(3 000 000)	(2 400 000)	**(5 400 000)**	-	**5 400 000**	42
General expenses	(31 181 000)	(7 014 000)	**(38 195 000)**	(39 766 892)	**(1 571 892)**	42
Other materials	(5 565 000)	(765 000)	**(6 330 000)**	-	**6 330 000**	42
Total expenditure	**(157 921 000)**	**(15 432 000)**	**(173 353 000)**	**(172 125 585)**	**1 227 415**	
Operating deficit	**27 251 000**	**(7 195 000)**	**20 056 000**	**(2 545 783)**	**(22 601 783)**	
Loss on disposal of assets and liabilities	-	-	**-**	(254 802)	**(254 802)**	
Deficit before taxation	**27 251 000**	**(7 195 000)**	**20 056 000**	**(2 800 585)**	**(22 856 585)**	
Surplus for the year	**27 251 000**	**(7 195 000)**	**20 056 000**	**(2 800 585)**	**(22 856 585)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Cash and cash equivalents	41 643 000	-	**41 643 000**	53 552 636	**11 909 636**	42
Consumer debtors	2 840 000	-	**2 840 000**	-	**(2 840 000)**	42
Inventories	620 000	-	**620 000**	406 265	**(213 735)**	42
Operating lease asset	-	-	**-**	6 227	**6 227**	42
Receivables from exchange transactions	-	-	**-**	172 043	**172 043**	42
Receivables from non-exchange transactions	15 000 000	-	**15 000 000**	15 744 456	**744 456**	42
VAT receivable	-	-	**-**	8 714 489	**8 714 489**	42
	60 103 000	**-**	**60 103 000**	**78 596 116**	**18 493 116**	
Non-Current Assets						
Intangible assets	-	-	**-**	453 382	**453 382**	42
Investment property	22 200 000	-	**22 200 000**	21 600 000	**(600 000)**	42
Other non-current assets	220 000	-	**220 000**	-	**(220 000)**	42
Property, plant and equipment	375 904 000	(2 030 000)	**373 874 000**	341 661 727	**(32 212 273)**	42
Receivables from non-exchange transactions	41 643 000	-	**41 643 000**	-	**(41 643 000)**	42
	439 967 000	**(2 030 000)**	**437 937 000**	**363 715 109**	**(74 221 891)**	
Total Assets	**500 070 000**	**(2 030 000)**	**498 040 000**	**442 311 225**	**(55 728 775)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	21 500 000	-	**21 500 000**	12 294 326	**(9 205 674)**	42
Consumer deposits	16 000	-	**16 000**	24 301	**8 301**	42
Unspent conditional grants and receipts	-	-	**-**	27 242 427	**27 242 427**	42
Provisions	1 650 000	-	**1 650 000**	51 000	**(1 599 000)**	42
	23 166 000	**-**	**23 166 000**	**39 612 054**	**16 446 054**	
Non-Current Liabilities						
Provisions	2 088 000	-	**2 088 000**	5 195 399	**3 107 399**	42
Total Liabilities	**25 254 000**	**-**	**25 254 000**	**44 807 453**	**19 553 453**	
Net Assets	**474 816 000**	**(2 030 000)**	**472 786 000**	**397 503 772**	**(75 282 228)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	474 816 000	(2 030 000)	**472 786 000**	397 503 772	**(75 282 228)**	42

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discount rate assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, inflation and interest rates.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occured, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Goodwill is tested on an annual basis for impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease depreciation charge where useful lives are more than previously estimated useful lives.

Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement and long-term benefit obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note .

Effective interest rate

The municipality uses the prime interest rate to discount future cash flows.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows: [The criteria depends on the extent to which the assets are used for service delivery]

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 10).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

1.4 Property, plant and equipment (continued)

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Bins and containers	Straight line	5 -10 years
Buildings	Straight line	30 years
Community assets	Straight line	30 years
Computer equipment	Straight line	3 - 5 years
Emergency equipment	Straight line	5 - 15 years
Furniture and fittings	Straight line	7 - 10 years
Infrastructure assets	Straight line	3 - 40 years
Landfill site	Straight line	30 years
Motor vehicle	Straight line	3 - 20 years
Office equipment	Straight line	5 - 7 years
Other property plant and equipment	Straight line	5 - 15 years
Refuse removal equipment	Straight line	5 years

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

1.4 Property, plant and equipment (continued)

Assets of the property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, rehabilitation and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of non-cash-generating assets.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially measured at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

1.6 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets to their residual values. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of items of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	1 - 10 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets are included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.7 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset is initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.7 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.7 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.8 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans to economic entities	Financial asset measured at amortised cost
Loans to shareholders	Financial asset measured at amortised cost
Inventories	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants will consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted when the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

1.10 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.10 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Value Added Tax

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No.89 of 1991.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

1.13 Employee benefits (continued)

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

1.13 Employee benefits (continued)

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of the employees rendering 10 yearscontinous service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method to determine the present value of the obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses, which shall all be recognised immediately;

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

1.14 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

Where the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. .

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are credited / debited against accumulated surplus when retrospective adjustments are made.

1.16 Revenue from exchange transactions

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

1.17 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, are exchange transactions and are accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

1.20 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.21 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.22 Comparative figures

Where necessary, comparative fi gures have been reclassified to conform to changes in presentation in the current year.

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

1.24 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 Budget information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.28 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	The impact of the is not material.
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	The impact of the is not material.
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	The impact of the is not material.
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	The impact of the is not material.
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	The impact of the is not material.
• GRAP 20: Related parties	01 April 2019	The impact of the is not material.
• GRAP 108: Statutory Receivables	01 April 2019	The impact of the is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact of the is not material.
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The impact of the is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 104 (revised): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact

Figures in Rand	2020	2019

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	(62 560)	(57 041)
Bank balances	3 638 733	3 008 871
Short-term deposits	49 976 463	6 046 029
Other cash and cash equivalents	-	6 253 172
	53 552 636	**15 251 031**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

First National Bank credit rating for short term deposits as at year end by Moodys was P3: Not under watch.

Cash and cash equivalents pledged as collateral

There are no cash and cash equivalent financial assets pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
FNB Bank - Main Accout - 62023653042	2 948 369	4 761 183	4 062 546	3 638 733	3 008 871	3 005 015
FNB Bank - Money Market Investment Account - 62032709993	5 483	5 272	5 201	5 406	5 272	5 124
FNB Bank - Infrastructure Grant Account - 62159138299	387 970	371 538	5 289	387 969	371 538	5 289
FNB Bank - Money Market Investments Call Call Account - 62600527975	48 466 304	10 854 532	40 988 556	48 468 193	10 854 532	40 988 556
FNB Bank - DBSA Loan Account - 62600530259	1 121 807	1 067 859	1 009 537	1 502 865	1 067 859	1 009 537
Total	**52 929 933**	**17 060 384**	**46 071 129**	**54 003 166**	**15 308 072**	**45 013 521**

4. Receivables from exchange transactions

Staff debtors	172 043	166 781
Other receivables 2	-	42 235
Consumer receivables - rental	6 290 541	3 911 782
Consumer receivables - sundry	498 390	117 526
Consumer recievables - electricity	392 476	33 841
	7 353 450	**4 272 165**

Trade and other receivables pledged as security

None of the trade and other receivables were pledged as security

Trade and other receivables past due but not impaired

Figures in Rand	2020	2019

4. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 4 156 839 (30 June 2019: R 4 185 518) were impaired and provided for.

The amount of the provision was R (4 156 836) as of 30 June 2020 (R (4 185 518)).

The ageing of these loans is as follows:

Over 6 months	4 156 839	4 185 518

Reconciliation of provision for impairment of trade and other receivables

Opening balance	4 185 518	3 979 737
Provision for impairment	(28 679)	205 781
	4 156 839	**4 185 518**

5. Receivables from non-exchange transactions

Consumer receivables - rates	15 441 042	14 329 081
Consumer receivables - traffic fines	303 414	235 104
	15 744 456	**14 564 185**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange were pledged as security

6. Consumer debtors disclosure

Gross balances		
Consumer receivables - rates	28 364 327	28 227 969
Consumer receivables - rentals	9 944 809	6 474 175
Consumer receivables - sundry	498 390	117 526
Consumer receivables - staff debtors	826 105	467 470
Consumer receivables - traffic fines	1 098 879	1 175 522
	40 732 510	**36 462 662**

Less: Allowance for impairment		
Consumer receivables - rates	(12 923 285)	(13 898 888)
Consumer receivables - rentals	(3 654 268)	(2 562 393)
Consumer receivables - staff debtors	(433 629)	(433 629)
Consumer receivables - traffic fines	(795 465)	(940 418)
	(17 806 647)	**(17 835 328)**

Net balance		
Consumer receivables - rates	15 441 042	14 329 081
Consumer receivables - rentals	6 290 541	3 911 782
Consumer receivables - sundry	498 390	117 526
Consumer recievables - staff debtors	392 476	33 841
Consumer receivables - traffic fines	303 414	235 104
	22 925 863	**18 627 334**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

6. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	(960 355)	6 937
31 - 60 days	-	205
61 - 90 days	(204 932)	104
91 - 120 days	-	123
> 121 days	23 400 391	14 321 712
	22 235 104	**14 329 081**

Electricity		
Current (0 -30 days)	71 275	112 639
31 - 60 days	25 774	9 169
61 - 90 days	10 389	158 594
91 - 120 days	41 833	109 273
> 121 days	5 069 498	3 522 107
	5 218 769	**3 911 782**

Sundry		
Current (0 -30 days)	-	25 111
31 - 60 days	-	18 514
61 - 90 days	-	11 959
91 - 120 days	14 400	8 932
> 121 days	352 422	53 010
	366 822	**117 526**

Staff debtors		
121 - 365 days	-	437 293
> 365 days	392 476	(403 452)
	392 476	**33 841**

Traffic fines		
Current (0 -30 days)	-	6 100
31 - 60 days	-	15 200
61 - 90 days	-	28 000
91 - 120 days	-	1 126 222
> 365 days	303 414	(940 418)
	303 414	**235 104**

7. Inventories

Consumable stores	161 435	186 287
Maintenance materials	244 830	250 033
	406 265	**436 320**

Inventory pledged as security

No inventory was pledged as security.

8. VAT receivable

VAT	8 714 489	9 447 646

Notes to the Annual Financial Statements

9. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Setlagole Business Complex	21 600 000	-	21 600 000	21 400 000	-	21 400 000

Reconciliation of investment property -30 June 2020

	Opening balance	Fair value adjustments	Total
Setlagole Business Complex	21 400 000	200 000	21 600 000

Reconciliation of investment property - 30 June 2019

	Opening balance	Total
Setlagole Business Complex	21 400 000	21 400 000

Pledged as security

No Investment property were pledged as security.

Details of valuation

The effective date of the revaluations was Tuesday, 30 June 2020. Revaluations were performed by an independent valuer, Mr Macdonald Modibedi [registration number 6056/01], of Kut Pal Properties and Projects. Mr Macdonald and Kut Pal Properties have no connection to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use and the South African property valuers association's standard method of valuation.

These assumptions are based on current market conditions.

10. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Bins and containers	65 072	(24 014)	41 058	65 072	(19 654)	45 418
Buildings	71 998 016	(24 948 365)	47 049 651	71 998 016	(20 240 867)	51 757 149
Community assets	145 640 229	(32 316 010)	113 324 219	144 952 542	(28 795 103)	116 157 439
Computer equipment	9 891 561	(3 428 302)	6 463 259	9 956 895	(2 616 986)	7 339 909
Emergency equiment	59 844	(39 288)	20 556	61 644	(36 968)	24 676
Furniture and fixtures	4 282 163	(2 226 945)	2 055 218	4 283 731	(1 941 943)	2 341 788
Infrastructure	193 972 535	(32 855 311)	161 117 224	188 126 901	(15 496 162)	172 630 739
Motor vehicles	15 318 782	(5 093 873)	10 224 909	16 782 346	(5 815 152)	10 967 194
Office equipment	391 490	(310 721)	80 769	385 151	(299 953)	85 198
Other property, plant and equipment	2 179 557	(897 962)	1 281 595	2 229 307	(769 655)	1 459 652
Waste removal equipment	-	3 269	3 269	11 952	(7 684)	4 268
Total	**443 799 249**	**(102 137 522)**	**341 661 727**	**438 853 557**	**(76 040 127)**	**362 813 430**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	Disposals	WIP additions	Prior period errors	Depreciation	Total
Bins and containers	45 418	-	-	-	-	(4 360)	41 058
Buildings	51 757 149	-	-	-	-	(4 707 498)	47 049 651
Community	116 157 439	-	-	687 687	-	(3 520 907)	113 324 219
Emergency equipment	24 676	-	-	-	-	(4 120)	20 556
Furniture and fixtures	2 341 788	-	-	-	-	(286 570)	2 055 218
Computer equipment	7 339 909	18 359	(4 705)	-	-	(890 304)	6 463 259
Infrastructure	172 630 739	1 304 020	-	-	4 541 612	(17 359 147)	161 117 224
Motor vehicles	10 967 194	1 246 340	(525 781)	-	-	(1 462 844)	10 224 909
Office equipment	85 198	29 741	(1 055)	-	-	(33 115)	80 769
Other property, plant and equipment	1 459 652	-	(28 765)	-	-	(149 292)	1 281 595
Waste removal equipment	4 268	-	-	-	-	(999)	3 269
	362 813 430	**2 598 460**	**(560 306)**	**687 687**	**4 541 612**	**(28 419 156)**	**341 661 727**

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Other movements	Transfers	WIP additions	Prior period error	Depreciation	Total
Bins and containers	43 088	-	-	-	-	8 667	(6 337)	45 418
Buildings	53 793 657	-	-	-	-	-	(2 036 508)	51 757 149
Community	82 889 380	-	-	34 176 713	4 589 274	(1 780 767)	(3 717 161)	116 157 439
Emergency equipment	12 286	-	16 260	-	-	4 358	(8 228)	24 676
Furniture and fixtures	1 246 735	317 841	565 850	-	-	700 365	(489 003)	2 341 788
Computer equipment	3 179 227	3 450 255	800 498	-	-	1 340 645	(1 430 716)	7 339 909
Infrastructure	123 441 382	-	(287 483)	-	28 547 652	23 177 598	(2 248 410)	172 630 739
Motor vehicles	8 724 405	1 508 745	604 052	-	-	2 575 183	(2 445 191)	10 967 194
Office equipment	72 274	-	85 589	-	-	(29 870)	(42 795)	85 198
Other property, plant and equipment	1 101 697	103 316	173 505	-	-	389 917	(308 783)	1 459 652
Waste removal equipment	3 527	-	2 656	-	-	(587)	(1 328)	4 268
	274 507 658	**5 380 157**	**1 960 927**	**34 176 713**	**33 136 926**	**26 385 509**	**(12 734 460)**	**362 813 430**

Figures in Rand	2020	2019

10. Property, plant and equipment (continued)

Pledged as security

Property, plant and equipment have not been pledged as security:

Details of properties

A register containing details of property plant and equipment of the municipality is available for inspection at the municipality's registered office.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Construction of Madibogo taxi rank phase 2	174 831	174 831
Construction of driving licence testing yard	615 267	615 267
Thutlwane dumping site	1 864 035	1 864 035
Matloding high mast lights	288 895	-
Mabule road	4 252 718	-
Disaneng multi purpose centre	1 165 500	1 165 500
Link road Tlaping to Madibogo	4 845 849	4 845 849
	13 207 095	**8 665 482**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Project 1 or Class 1 or Asset 1	174 831	174 831
Still minor work to be done . Had issues with contractors. Practical completion.		
Project 2 or Class 2 or Asset 2	615 267	615 267
Designs done. No construction yet due to budget constraints.		
Project 3 or Class 3 or Asset 3	1 165 500	1 837 195
Installation was completed in the prior financial year, the municipality is waiting for eskom to supply energy.		
Project 4 or Class 4 or Asset 4	-	730 072
contract terminated due to non-performance by the appointed contractor.		
	1 955 598	**3 357 365**

Reconciliation of Work-in-Progress 30 June 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	104 065 132	47 105 187	1 864 035	153 034 354

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings	1 097 216	1 139 874
Infrastructure assets	1 934 970	5 573 886
IT assets	29 950	1 028 324
Vehicle repairs	273 644	604 332
Equipment repairs	115 448	55 561
	3 451 228	**8 401 977**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 270 873	(817 491)	453 382	1 270 873	(690 404)	580 469

Reconciliation of intangible assets - 30 June 2020

	Opening balance	Amortisation	Total
Computer software	580 469	(127 087)	453 382

Reconciliation of intangible assets -30 June 2019

	Opening balance	Additions	Disposals	Other changes, movements	Amortisation	Total
Computer software	511 884	148 500	(154 906)	235 530	(160 539)	580 469

Pledged as security

No Intangible assets were pledged as security.

12. Payables from exchange transactions

	2020	2019
Trade payables	(3 015 017)	(135 051)
Accrued bonus	2 044 905	2 277 164
Accrued leave	3 572 028	4 269 847
Other payables	-	6 257 615
Project creditors	-	7 771 571
Debtors with credit balance	(421)	886 491
Retention payables	9 159 038	11 621 178
Other Creditors	533 795	-
	12 294 328	**32 948 815**

13. Consumer deposits

	2020	2019
Rental	24 301	24 301

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2020	2019
Free basic water grant	2 717 308	2 717 308
Kraaipan grant	387 697	387 697
Library grant	1 430 277	750 000
Municipal Infrastructure Grant	22 707 145	-
	27 242 427	**3 855 005**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

14. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	3 855 005	8 275 685
Additions during the year	161 731 125	133 780 000
Income recognition during the year	(138 343 703)	(138 200 680)
	27 242 427	**3 855 005**

15. Provisions

Reconciliation of provisions - 30 June 2020

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	1 218 213	82 423	-	1 300 636
Provision for long service awards	2 294 027	1 807 611	(155 875)	3 945 763
	3 512 240	**1 890 034**	**(155 875)**	**5 246 399**

Reconciliation of provisions - 30 June 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	1 135 416	82 797	1 218 213
Long service awards	2 038 582	255 445	2 294 027
	3 173 998	**338 242**	**3 512 240**

	2020	2019
Non-current liabilities	5 195 399	3 375 021
Current liabilities	51 000	137 219
	5 246 399	**3 512 240**

Environmental rehabilitation provision

The provision for environmental rehabilitation relates to the municipality's estimated liability arising from the operation of two dumping sites, one in Setlagole and the other in Makgobistad.

Provision has been made for the net present value of the cost by One Pangaea Expertise and Solutions Pty Ltd, registered actuaries and waste management consultants.

The environmental rehabilitation provision includes an interest cost of R39 349 (2019: R38 036)

Summary of Assumptions

The unit cost of the various cost elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website www.safcec.org.za) and the Contract Price Adjustment Factors (drawn from the www.dialytenders.co.za) websites, using the coefficients for Earthworks as provided in the General Conditions of Contract. Online research of services within the locality of Ratlou was used to determine unit rates for the cost derived for the closure and rehabilitation items. The pricing guide is the industry standard in referencing material for any stakeholder involved in the South African construction sector

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2020 was 11.28% p.a. The consumer price inflation of 6.61% p.a. was obtained from the differential between the averages of the Nominal Bond of 11.28% p.a. and the Real Bond 4.38% p.a. (Zero Yield Curves)

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2020. The key assumptions are summarised below:

Assumptions	**30 June 2020**	**30 June 2020**
Discount rate (D)	11.28%	9.64%
Consumer price inflation (C)	6.61%	6.21%
Net discount rate ((1+D)/(1+H)-1)	4.38%	3.23%

Figures in Rand	2020	2019

15. Provisions (continued)

Long service awards

THe obligation arise from conditions of service which provide that employees that render 10 continuous years, and thereafter ech 5 years, of service to the municipality are awarded the financial benefit. The obligation is based on rates approved by the municipality.

The Long service award (employee benefit obligation) disclosed includes an interest cost of R210 257 (2019: R191 251), current service cost of R344 341 (2019: R322 857) and actuarial gains and [-losses] of R1 253 013 (2019: -R158 102).

Summary of Assumptions

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases.

The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Actuarial assumptions	**30 June 2020**	**30 June 2019**
Discount rate	10.18%	9.26%
CPI	4.97%	5.38%
Salary increase rate	5.97%	6.38%
Net Discount Rate	3.97%	2.71%

16. Financial instruments disclosure

Categories of financial instruments

30 June 2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	15 744 456	15 744 456
Other receivables from non-exchange transactions	7 353 450	7 353 450
Cash and cash equivalents	53 552 636	53 552 636
	76 650 542	**76 650 542**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	12 294 328	12 294 328
Unspent conditional grants	27 242 427	27 242 427
	39 536 755	**39 536 755**

30 June 2019

Financial assets

16. Financial instruments disclosure (continued)

	At amortised cost	Total
Trade and other receivables from exchange transactions	4 272 165	4 272 165
Other receivables from non-exchange transactions	14 564 185	14 564 185
Cash and cash equivalents	15 251 031	15 251 031
	34 087 381	**34 087 381**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	32 948 814	32 948 814
Unspent conditional grants	3 855 005	3 855 005
	36 803 819	**36 803 819**

17. Service charges

	2020	2019
Service charges	311 856	377 573

18. Rental of facilities and equipment

	2020	2019
Premises		
Premises	1 171 686	1 348 261
Facilities and equipment		
Rental of facilities	27 866	23 395
	1 199 552	**1 371 656**

19. Other revenue

	2020	2019
Insurance received	-	1 060 700
Other income	141 719	395 548
	141 719	**1 456 248**

The amount included in other revenue arising from exchanges of goods or services are as follows:

	2020	2019
Recoveries	-	1 783
Rezoning and telecentre	3 215	2 783
Library income	-	7 493
Tender fees	11 304	111 392
Tuition fees	127 200	272 097
	141 719	**395 548**

20. Investment revenue

	2020	2019
Interest revenue		
Bank	297 759	135 026
Interest from investments	2 183 035	2 995 836
	2 480 794	**3 130 862**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Property rates

Rates received

Residential on farms	2 033 600	1 749 333
Commercial	1 221 744	1 897 474
State	23 199 239	10 658 512
Farms	3 763 247	4 313 165
Less: Income forgone	(1 584 062)	(1 381 364)
	28 633 768	**17 237 120**

Figures in Rand	2020	2019

22. Government grants and subsidies

Operating grants		
Equitable share	122 894 000	111 525 000
Expanded public works programme grant	1 571 000	1 448 000
Finance management grant	1 940 000	1 940 000
Disaster management grant	268 000	-
Library grant	421 400	-
LG SETA grant	135 767	175 486
	127 230 167	**115 088 486**
Capital grants		
Municipal infrastructure grant	6 692 856	18 867 680
	133 923 023	**133 956 166**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	11 038 023	22 255 000
Unconditional grants received	122 894 000	111 525 000
	133 932 023	**133 780 000**

Municipal infrastructure grant

Balance unspent at beginning of year	-	4 420 680
Current-year receipts	29 400 000	18 867 000
Conditions met - transferred to revenue	(6 692 855)	(18 867 000)
Other	-	(4 420 680)
	22 707 145	**-**

Conditions still to be met - remain liabilities (see note 14).

Kraaipan grant

Balance unspent at beginning of year	387 697	387 697

Conditions still to be met - remain liabilities (see note 14).

The grant is provided to provide services and goods on behalf on the Grantor to the community, as such no expenditure or revenue is reconised by the municipality as it is only intermediary.

Free basic water

Balance unspent at beginning of year	2 717 308	2 717 308

Conditions still to be met - remain liabilities (see note 14).

The purpose of the grant is to provide the water to the community as an agent of the District, as such no expenditure or revenue is recognised on the grant.

Financial management grant

Current-year receipts	1 940 000	1 940 000
Conditions met - transferred to revenue	(1 940 000)	(1 940 000)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 14).

The purpose of the grant is to promote and support reforms in financial management by building capacity to implement the MFMA.

Expanded public works programme

Current-year receipts	1 571 000	1 448 000
Conditions met - transferred to revenue	(1 571 000)	(1 448 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Appointment of workers on the Expanded Public Works Programme.

LG SETA grant

Current-year receipts	557 167	175 486
Conditions met - transferred to revenue	(557 167)	(175 486)
	-	-

Conditions still to be met - remain liabilities (see note 14).

The municipality received funds from LG SETA for excellent performance by the human resources division. The funds must be utilised towards training.

Disaster management grant

Current-year receipts	268 000	-
Conditions met - transferred to revenue	(268 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

Library grant

Balance unspent at beginning of year	750 000	750 000
Current-year receipts	1 967 297	-
Conditions met - transferred to revenue	(1 287 020)	-
	1 430 277	**750 000**

Conditions still to be met - remain liabilities (see note 14).

The purpose of the grant is to support the municipality with administration of libraries.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

23. Employee related costs

Acting allowances	864 072	1 731 523
Bargaining council contributions	25 657	23 596
Basic	54 181 309	51 968 263
Bonus	4 072 174	4 158 093
Housing benefits and allowances	1 724 522	1 467 240
Leave pay provision charge	238 315	445 484
Long-service awards	1 959 417	322 858
Medical aid - company contributions	5 885 773	5 796 174
Remote allowance	118 569	161 940
Overtime payments	779 399	804 176
Pension fund contributions	5 987 327	5 815 090
SDL	597 035	625 433
Travel, motor car, accommodation, subsistence and other allowances	-	80 751
UIF	409 761	414 877
	76 843 330	**73 815 498**

Remuneration of municipal manager

Annual Remuneration	884 551	713 067
Car Allowance	-	27 903
Contributions to UIF, Medical and Pension Funds	1 785	8 550
Remote allowance	41 686	-
	928 022	**749 520**

Remuneration of acting chief finance officer

Acting allowance	182 246	213 214
Remote allowance	18 708	17 300
Travel and subsistence	-	7 244
Contributions to UIF, Medical and Pension Funds	-	3 322
	200 954	**241 080**

The current acting chief finance officer was seconded by Provincial treasury and remuneration is borne by the provincial treasury according to the terms of the secondment.

Remuneration of technical services manager

Annual Remuneration	522 970	44 942
Remote allowance	34 732	-
Travel allowance	275 000	-
Contributions to UIF, Medical and Pension Funds	47 114	-
	879 816	**44 942**

Corporate and human resources (corporate services)

Acting allowance	83 971	-
Remote allowance	10 419	-
	94 390	**-**

Remuneration of acting senior manager: Town planning

Acting allowance	80 971	74 498
Remote allowance	13 024	-
	93 995	**74 498**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

24. Remuneration of councillors

Councillors	8 600 925	7 890 889
Executive Committee Members	2 685 498	2 735 193
Speaker	1 151 659	713 444
Mayor	206 956	-
	12 645 038	**11 339 526**

Remuneration of the Mayor

The Mayor, Speaker and full-time councilors are provided with office space.

The remuneration of the political office-bearers and councilors are above the upper limits as determined by the framework.

The Mayor and Speaker each have the use of council owned vehicles for official duties.

The Mayor and Speaker have the support of personal assistants.

25. Depreciation and amortisation

Property, plant and equipment	28 546 252	2 262 719

26. Finance costs

Bank	32 725	319 457

27. Debt impairment

Contributions to debt impairment provision	4 156 836	4 185 518

28. Contracted services

Presented previously		
Fleet Services	6 412 479	6 112 561

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. General expenses

Accomodation and meals	2 296 396	3 093 060
Advertising	559 017	490 632
Auditors remuneration	2 956 621	1 983 064
Bank charges	177 962	191 712
Billing charges	331 539	919 857
Bursary	50 739	14 965
Catering	363 878	784 199
Cleaning	112 464	254 961
Community development and training	7 800	3 500
Conferences and seminars	36 152	347 413
Consulting and professional fees	7 882 753	11 954 915
Donations	604 712	18 049
Electricity	8 037 429	6 997 605
Fleet	153 770	117 228
Fuel and oil	2 096 651	2 067 771
IDP	168	6 625
IT expenses	473 281	645 912
Insurance	1 848 614	1 712 889
Membership fees	783 000	720 810
Motor vehicle expenses	143 199	214 189
Other expenses	7 942	101 173
PMU costs	17 635	-
Pest control	226 670	546 214
Printing and stationery	1 934 987	1 201 821
Public awareness	179 775	425 976
Landfill site expense	82 423	82 797
Repairs and maintenance	3 451 227	8 401 978
Staff welfare	83 937	48 092
Stipends and internships	3 643 619	6 508 358
Subscriptions and membership fees	-	2 404
Telecentre support	168 000	265 712
Telephone and fax	3 920 233	4 753 816
Training	540 873	904 105
Transport and freight	29 201	92 522
Uniforms	15 452	82 000
	43 218 119	**55 956 324**

30. Auditors' remuneration

Fees	2 956 621	1 983 064

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Cash generated from operations

(Deficit) surplus	(2 800 585)	7 992 822
Adjustments for:		
Depreciation and amortisation	28 546 252	2 262 719
(Gain)/ loss on sale of assets and liabilities	254 802	-
Debt impairment	4 156 836	4 185 518
Movements in operating lease assets and accruals	(2 633)	2 633
Movements in provisions	1 734 159	337 824
Changes in working capital:		
Inventories	30 057	312 733
Receivables from exchange transactions	(2 348 129)	(2 357 219)
Other receivables from non-exchange transactions	(1 180 271)	1 276 683
Payables from exchange transactions	(20 654 488)	3 987 013
VAT	733 157	(1 105 899)
Unspent conditional grants and receipts	23 387 422	(4 420 680)
Consumer deposits	-	6 968
Other movements	9 043 486	3
	40 900 065	**12 481 118**

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	112 193 579	128 124 577
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	-	10 459 000
Total capital commitments		
Already contracted for but not provided for	112 193 579	128 124 577
Not yet contracted for and authorised by accounting officer	-	10 459 000
	112 193 579	**138 583 577**

This committed expenditure relates to plant and equipment and will be financed by available bank balances, retained surpluses, gorvernment grant funds, existing cash resources, funds internally generated, etc.

33. Contingencies

1. France Pajel versus Ratlou local municipality: Disciplinary hearing on charges of maladministration/sabotage in Annual Financial Statement. Absenteeism/reporting late without reporting to manager. Matter has been referred to Labour Court for review of proceedings at arbitration. The amount of the contingency is unknown

2. Kebothale trading versus Ratlou local municipality: Claim that the Municipality confiscated a Bell Backhoe Loader. Claim is for R492 960.00

3. Sheriffs versus Ratlou local municipality: Claim for sheriff costs relating to attachment processes instituted by employee in terms of an arbitration order. Claim is for R50000.00

4. T Square engineers vs Ratlou local municipality: Default judgment was challenged successfully by municipality, summons thereafter was received for outstanding payments for services rendered. Claim is for R289 361.82

5. Sharon's maintenance and electrification versus Ratlou local municipality: Claims that the Municipality failed to pay the outstanding amount for the service rendered by Sharon’s maintenance for the water reservoir in Logageng village. The amount of the claim is R2 227 898.81

6. Bokone Bophirima property valuers versus Ratlou local municipality: The Municipality received summons alleging that it is in breach of the service level agreement in that it failed to pay the Plaintiff an amount of service rendered to it, totalling the sum of R 1 246 152,07

7. KD civils versus Ratlou local Municipality: Claim for unpaid invoices for services rendered, the amount of the claim is R214 385.91

8. Puthiegae and other versus Ratlou local municipality: The applicants are challenging the termination of their employment contract and the municipal policy in relation to retirement age of 60 years, the amount of the claim is R150 000

9. Shomolekae and others versus Ratlou local municipality: To declare extensions (per appointment letters) of employment contracts of contract employees of RLM till retirement age to be Null and Void. The amount of of the claim is currently unknown.

10. Johan Lizemore Vs Ratlou local municipality: The case relates to an amount of negligency in payment of an amount or R135 618

10. Cassius Sebatane Sejake vs Ratlou Local Municipality: An employee challenging the Municipal Manager´s decision to set aside the former Administrator´s decision to terminate the chairperson in the said employee´s disciplinary hearing. The matter is still pending. The claim amount is R80 000

11. Ratlou Local Municipality Vs Neo Monttsiwagae & 25 others: Urgent application to interdict the respondents from interfering with and disrupting the operations of the Municipality. Interim Order issued and matter set down for the 27th August for a Final order.

12. Ratlou local municipality Vs Shomolekae & Others (Declaration order M320/2018): To declare extensions (per appointment letters) of employment contracts of contract employees of RLM till retirement age to be Null and Void. The amount of the contingent is R400 000.

Figures in Rand	2020	2019

34. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Close family member of key management	declarations of interest were circulated and CIPC saerch was conducted

The following related party transactions and balances occured between the municipality and its key management. All related party transactions occured at arms lenght

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
Lots trading enterprise	(22 150)	-
Rediko enterprises	(687 687)	-
O.V.S Constructionand maintenance	(383 200)	-
Refilwe Botsalano trading	(14 000)	-

All related party transactions occured at arms length

Related party transactions

Purchases from (sales to) related parties		
Refilwe Botsalano Trading & Enterprise (S Setlhaku)	14 000	58 870
Aobakwe Catering & Enterprise	-	10 000
Khuduga Steel & Brick Work	-	1 080
Striving mind 262	-	42 150
Tumagotlhe Building Constrauction and Transport	-	7 650
Ihlosi enterprise	-	4 320
Masego Arona	22 150	11 275
Lots Trading Entreprise	20 380	-
Sennegeng (Pty) Ltd	10 200	-
Kutlwano Kgolo	7 700	-
Mysoso Business Enterprise	-	4 000
Khokho's Technical Engineering	752 479	1 141 526
Dorenza Projects	16 500	51 200
Batsatsing Consulting	-	29 895
G T Nthwane	-	16 200
Compu-cell	226 970	279 710
Tshaba Motho Transport	-	24 952
Rediko Enterprise	687 687	2 315 276
O.V.S Construction and Maintenance	383 200	345 600

Remuneration of councillors

Councillors/Mayoral committee members

Refer to note 24 "Remuneration of councillors"

Executive management

*Refer to note 23 "Employee related costs"

35. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	12 294 328	-	-	-

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	32 948 814	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**30 June 2020**	**30 June 2019**
First National Bank	53 552 636	15 251 031
Receivables from exchange transactions	7 353 450	4 229 930
Receivables form non exchange transactions	15 744 456	14 564 185

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

36. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 404 685 177 and that the municipality's total assets exceed its liabilities by R 404 685 177.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Going concern (continued)

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

37. Events after the reporting date

No material subsequent events were identified.

38. Unauthorised expenditure

Office of the mayor	274 176	-
Budget and treasury office	14 098 341	-
Planning and development	165 464	-
Office of the speaker	375 508	-
	14 913 489	**-**

39. Fruitless and wasteful expenditure

Opening balance	853 852	808 622
Interest charged	10 556	45 230
	864 408	**853 852**

40. Irregular expenditure

Opening balance	122 157 000	109 105 807
Add: Irregular Expenditure - current year	4 858 939	13 051 193
	127 015 939	**122 157 000**

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

SALGA membership fee	783 000	720 810
Amount paid - current year	(783 000)	(720 810)
	-	-

Audit fees

Opening balance	1 983 064	-
Current year fee	2 956 621	1 983 064
Amount paid - current year	(1 983 064)	-
	2 956 621	**1 983 064**

Pension and Medical Aid Deductions

Current year subscription / fee	6 295 534	6 211 051
Amount paid - current year	(6 295 534)	(6 211 051)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	8 714 489	9 447 646

VAT output payables and VAT input receivables are shown in note 8.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Information technology upgrade	-	46 565
Upgrading of electricity services	-	1 734 177
	-	**1 780 742**

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Operating expenditures were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

43. Budget differences

Material differences between budget and actual amounts

Service charges: The amount for electricity usage was budget under Rentals of facilities and It has declined during lockdown period due to Covid-19 Pandemic, whereby some of the tenants where not operational as businesses were closed.

Rental of facilities: The amount was Inclusive of electricity usage service

Interest on investements: The Municiaplity received an additional Library grant which led to more interest. Delay in start of some projects meant that amounts received for MIG stayed longer in accounts earning more interest.

Conditional grants revenue: The municipality had budgeted to meet conditiones for MIG sooner. The grant was however received later resulting in fewer conditions being met to allow revenue recognition**.**

Employee costs: The high rates of vacancies that were not filled permanently meant that less was spent of employee costs as most managerial officials are eaither in an acting capacity or seconded where the municipality does not bear the remuneration cost of such officials

Depreciation: The municipality received transferred assets fron the district duringg the financial year. This increased actual depreciation

Repairs and maintenance: The municiaplity did not budget for this specific item separately but lumped under other general expenditure.

Contracted services: The municipality halted and delayed contracting for some services due to Covid outbreak..

Other materials: These would correspond include repairs and mantenance, hence the compensating variances between the two line items.

Cash and cash equivalents: The amounts are more than budgeted mainly becasue grants received were not utelised according to initial time frames but there were delays in starting projects.

Property plant and equipment: The municipality engaged an expert for implementation of asset register. The difference between budget and actual arises from results obtained by experts which differ from municipal initial budget

VAT receivable: The municipality did not budget for this receivable, VAT is recorded on a cash basis wereas the budget is for performance, the actual amounts in the annual financial statements relates to previous assessments that are still pending finalisation

Non current assets receivables from non exchange: The municipality misbudgeted long term receivables

Paybles from exchange: Due to late start of projects, contracts were fewer and payables were less than originally budgeted for.

Unspent conditional grants: The municipality did not anticipate to have unspent grants as it would have implemented its service delivery mandates, grants were received later and the Covid shut down meant projects could not start in time to utelise these amounts

Provisions: Experts were engaged to value landfill sites and long service awards, The variances arise from municipality's estimates versus expert estimates

44. Prior period errors

Restatement of certain prior period differences were made on the financial statements production system (caseware). The entity uses Sage Evolution as an enterprise system for recording financial transactions. There were major differences between Sage evolution line item account transactions and balances and the annual financial statements production software (caseware). These difference arose from a non reconciliation and posting of annual financial statement amounts into the Sage system predating since MSCOA implementation commenced. Management assessed that retrospective restatement of Sage Evolution was impractical becasue of this reason.

Management applied GRAP 3 paragraph 46 "*When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period)"* and restated Sage Evolution balances in the current year because of the impracticality of retrospective restatement

The annual financial statements were adjusted for the following items retrospectively on the annual financial statements production system (caseware)

Revenue and receivables from exchange transactions: agency fees.
An amount or R42 235 relating to licencing and registration fees fees/comission for services rendered to the Department of Community Safety and Transport management relating to prior year.

Property plant and equipment and accumulated surplus
The municipality engaged specialists to account for the municipal property plant and equipment and construct a new asset register. Adjustments to property plant and equipment of R16 635 571 were effected against accumulated surplus of the same amount.

I**ntangible assets** and accumulated surplus
Adjustments arising from the property plant and equipment construction of a new asset register also led to adjustments to intangible assets of R170 772

Provisions and general expenses
The municipality engaged actuarial specialists for the valuation of the landfill sites operated. Resulst of the actuaries report led to an adjustment of R82 797 on provisions and general expenses.

The effects of these retrospective adjustements are disclosed in note 44. :

45. Prior-year adjustments

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

Statement of financial position

30 June 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from exchange transactions		4 229 930	42 235	-	4 272 165
Property, plant and equipment		379 449 001	(16 635 571)	-	362 813 430
Intangible assets		751 241	(170 772)	-	580 469
Accumulated surplus		(405 192 165)	16 764 108	-	(388 428 057)
Provisions		-	-	(97 870)	(97 870)
Employee benefit obligations		(97 870)	-	97 870	-
		(20 859 863)	**-**	**-**	**(20 859 863)**

45. Prior-year adjustments (continued)

Statement of finanical performance

30 June 2019

	Note	Correction of error	Restated
Agency fees		(42 235)	(42 235)